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Rating Questions on Senate Bill 110

Question 1: Section 5.I(e)(3) allows carriers to use group size as a rating factor. However, the highest factor based on group size shall not exceed the lowest factor based on group size by 20%; provided that for groups of one, an additional 10% rating factor shall be allowed from the highest factor. Please explain how the 20% is calculated, e.g is the **difference** in factors (e.g., 1.10 vs. .90) or the **ratio** of factors (e.g., 1.08 / .90 = 1.20).

Answer: It is the ratio.

Question 2: Is the additional 10% rating factor allowed in SB 110 for groups of one outside of the 20% cap? Thus, is the size factor for groups of 2 is 20% greater than for groups of 50, and the size factor for groups of 1 10% greater than for groups of 2.

Answer: Groups of one may be have a rating factor that is 1.32 (1.2 * 1.1) times larger than the smallest rating factor being utilized for group size.

Question 3: Under SB 110 carriers may use the industry classification as a rating factor. The legislation provides that the highest factor based on industry classification shall not exceed the lowest factor based on industry classification by more than 20 percent. Does this mean that the ratio of the highest factor to the lowest factor shall not exceed 1.20? Or conversely, does this mean that the difference between the highest factor and the lowest factor shall not exceed 20% (i.e. 1.10 – 0.90 = 0.20)?

Answer: It means the ratio.

Question 4: SB 110 allows carriers to use the small employer group's geographic location as a rating factor. The legislation provides that the highest factor cannot exceed the lowest factor by more than 15 percent. Does this mean that the ratio of the highest factor to the lowest factor shall not exceed 1.15? Or conversely, does this mean that the difference between the highest factor and the lowest factor shall not exceed 15% (i.e. 1.10 – 0.95 = 0.15)?

Answer: It means the ratio.

Question 5: SB 110 allows carriers to use the health status of the small employer group as a rating factor. However, the application of a health status factor shall be subject to the limitation that variations from the arithmetic average of the highest rate charged to the lowest rate charged shall not exceed 25 percent. How is that applied?

Answer: The following formula demonstrates the application where the AHS, Average Health Status Factor equals (Highest Health Status Factor (HHS)+ Lowest Health Status Factor (LHS))/2, the law requires that HHS/AHS<=1.25. For example, using HHS=1.50 and LHS =.90 would be allowed. In this example, AHS = 1.20, and HHS/AHS = 1.25.

Question 6: SB 110 provides that upon the renewal of a small employer policy, any increase in the premium rate that is solely attributable to changes in the health status factor from the prior year shall be no more than 15 percent. Will this limitation apply to groups that increase in size? For example, a group currently has 5 employees, and grows to 35 employees at next renewal. The average health status of the new demographics is different from the current demographics. Will this limitation apply in the first effective year of the legislation for carriers renewing groups where health status factors weren't previously used?

Answer: The limitation can not be waived due to changes in the group size or census. However, it should be noted that prior to the effective date of the legislation, health carriers were barred from using a health status factor. Upon the first renewal date after the effective date of the legislation, carriers will be introducing a health status factor; not changing the health status factor. This limitation therefore does not apply when computing a group's renewal rate at the group's first renewal after the new law's effective date.

Question 7: SB 110 provides that upon the renewal of a small employer policy, a carrier is prohibited from increasing the premium rate by more than 25% of the rate charged in the preceding year. Such rate increase limitation shall not include any premium rate increase that is based on carrier's annual cost and utilization trends or changes in the rating factor for attained age of covered persons. Will the 25 percent limitation exclude adjustment for inadequate or excessive base rate set from the current policy period?

Answer: The limitation does not apply to changes in the plan's base rate.

Question 8: Will the 25 percent limitation apply to the change in the composite age factor as a result of the change in the slope of the age factors?

Answer: The limitation does not apply to changes in the age slope, e.g. moving from an age slope of 3:1 to 4:1.

Question 9: Will the 25% limitation apply to groups moving to different rating methodologies (i.e., from Demo List Billed rating methodology to Demo Composite rating methodology) as the groups grow or shrink?

Answer: Changes in the group size rating factor are subject to this limitation.

Question 10: How should a carrier demonstrate compliance with the 25% limitation?

Answer: If a group's premium for policy year t calculated as:

$\text{Group Premium}_t = \text{Base Rate}_t * \sum\text{Census Factors}_t * \sum\text{Membership Factors}_t * \text{Step-Up Factor}_t * \text{Group Size Factor}_t * \text{SIC Factor}_t * \text{Geographic Location Factor}_t * \text{Health Status Factor}_{t}$, then

$\text{PMPM}_t = \text{Group Premium}_t / \text{Number of Enrollees}_t$

$\text{Average Census Factor}_t = \sum\text{Census Factors}_t / \text{Number of Enrollees}_t$

$\text{Average Membership Factor}_t = \sum\text{Membership Factors}_t / \text{Number of Enrollees}_t$ a satisfactory demonstration would be one showing that for each and every renewal the following is true:

$\text{PMPM}_{t+1} / \text{PMPM}_t <= 1.25 * \text{Base Rate}_{t+1} / \text{Base Rate}_t * \text{Average Census Factor}_{t+1} / \text{Average Census Factor}_t * \text{Average Membership Factor}_{t+1} / \text{Average Membership Factor}_t * \text{Step-Up Factor}_{t+1} / \text{Step-Up Factor}_t$